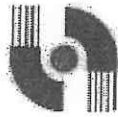


MULTIMEDIA



UNIVERSITY

STUDENT IDENTIFICATION NO

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MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 2, 2016/2017

BEC1624 – MACROECONOMICS

(All sections / Groups)

2 MARCH 2017

9.00 a.m – ~~12.00 a.m~~

(3 Hours)

INSTRUCTIONS TO STUDENT

1. This Question paper consists of 4 pages with 5 Questions only.
2. Attempt **ALL** questions. All questions carry equal marks and the distribution of the marks for each question is given.
3. Please write all your answers in the Answer Booklet provided.

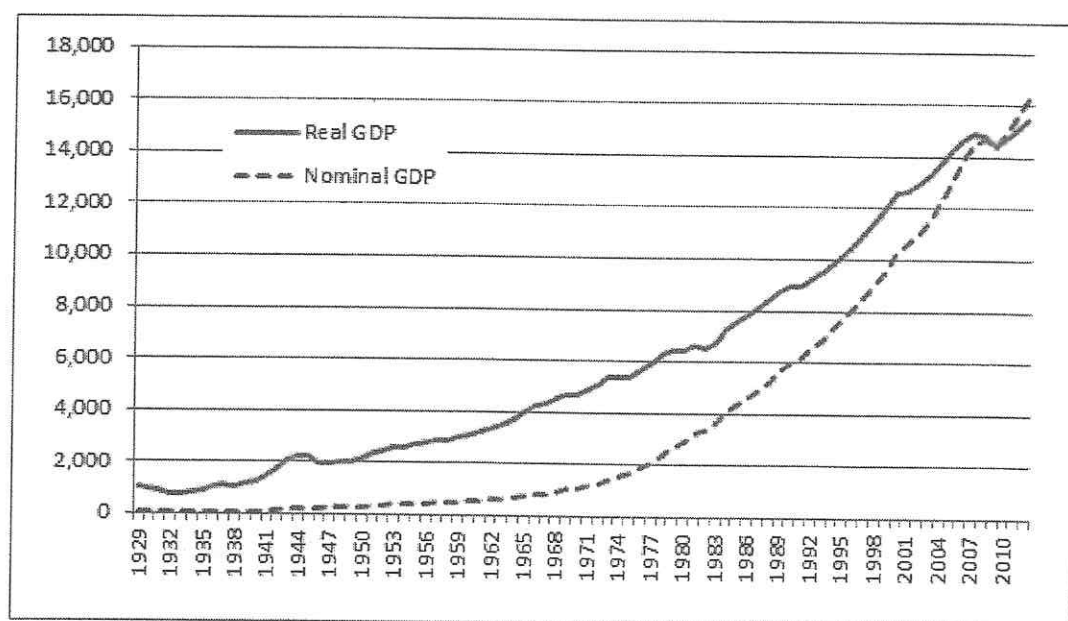
QUESTION 1

Figure 1: Nominal and Real Gross Domestic Products

- (a) Refer to Figure 1. "Nominal gross domestic product is the best measurement of a country's economic growth compared to real gross domestic product." Do you agree? Explain.

(10 marks)

- (b) Consumer price index (CPI) is widely used to measure the overall price level compared to GDP deflator. Discuss the different between these two indicators of inflation.

(10 marks)

(Total: 20 marks)

QUESTION 2

- (a) Human capital development is more important than technology advancement in determining the productivity of a country. Do you agree? Criticize.

(6 marks)

Continued...

- (b) Identify which of the following people would be considered unemployed according to official statistics? Briefly explain your answers.
- A mother who decides to stay at home taking care of children full-time
 - A manager in commercial who quits his job because he thinks the pay is insufficient.
 - Sarah a 19 years old teenager who gets discouraged looking for work and stops looking new job.
 - Benjamin who write in to a multinational company and waiting for answers to job qualifications.

(6 marks)

- (c) Malaysians are borrowing too much, not saving enough
.... the ratio of household debt to gross domestic product remains high, at 89.1% in 2015 against 87.4% in 2014 according to Khazanah Research Institute. Most of the household debt are undertaken to finance house purchases. It said that only 10.8% of households in Malaysia were resilient to financial shocks caused by factors such as unemployment, physical impairment, death, divorce and changes in interest rates or financial markets.

Source: The Star, Tuesday, 30 August 2016.

Relate how the less saving today among Malaysians would affect saving, investment and interest rate in Malaysia. Include an appropriate diagram of supply and demand for loanable funds to support your discussion.

(8 marks)

(Total: 20 marks)

QUESTION 3

- (a) Suppose the government passed a new law lowering business taxes for any firm building a new factory or buying a new piece of equipment. Draw the market for loanable funds and explain how this investment incentive affects the equilibrium interest rate and the equilibrium quantity of funds.

(6 marks)

- (b) Discuss how budget deficits crowd out domestic investment.

(6 marks)

Continued...

- (c) Discuss from the GDP equation how saving, domestic investment, and net capital outflow are related.

(8 marks)

(Total: 20 marks)

QUESTION 4

- (a) People do not simply keep all of their assets in forms that are easiest to use for making transactions. Comment.

(4 marks)

- (b) Surprisingly poor gross domestic product (GDP) figures yesterday have raised the spectre of a prolonged period of economic pain for Singapore. Growth was just 0.6 per cent in the July to September period compared with the same quarter a year ago, according to advance estimates from the Ministry of Trade and Industry. This was sharply lower than economists' estimates of a 1.7 per cent expansion, and the weakest rate of growth since 2009 in the wake of the global financial crisis.

- i. Draw an aggregate demand and aggregate supply diagram to illustrate the current situation. Please include the aggregate demand curve, the short-run aggregate supply curve, and the long-run aggregate supply curve.

(4 marks)

- ii. Identify an open-market operation by Monetary Authority of Singapore (MAS) that would restore the Singapore economy to its natural rate.

(4 marks)

- iii. Draw a diagram of the money market to illustrate the effect of this open-market operation. Show the resulting change in the interest rate.

(4 marks)

- iv. Briefly explain as to how the prescribed open-market operation has an effect on Singapore's lower output. Demonstrate your explanation further using appropriate diagram to show the effect of the open-market operation on quantities of output and the price level.

(4 marks)

(Total: 20 marks)

Continued...

QUESTION 5

- (a) Assume the banking system in Malaysia has RM100 billion in demand deposits and RM10 billion in reserves. In addition, assume that the required reserve ratio is 5%. Answer the following questions:

- i. How much excess reserves are in this system?
(1 mark)
- ii. What is the value of the money multiplier?
(1 mark)
- iii. What is the maximum amount of change in demand deposit creation that could take place if the banking system lent out all of its excess reserves.
(2 marks)

- (b) Draw a graph of a long-run Phillips curve. What does this graph imply about the long-run trade-off between inflation and unemployment? What does this graph imply about the effectiveness of monetary and fiscal policy in the long run?
(6 marks)

- (c) Cooking oil subsidy gone by next year

KUALA LUMPUR, Oct 20 — Subsidies for cooking oil will be removed in stages beginning next month, eventually leaving price controls only for 1kg packages. The latter subsidy will also be dropped on January 1.

Source: Malay Mail Online, 20th October 2016

- i. What kind of fiscal policy has government implemented during this rationalisation of subsidies?
(2 marks)
- ii. Using an appropriate diagram, relate how will this announcement affects the aggregate output and price level through the response of households and firms in Malaysia in the short-run?
(4 marks)
- iii. From part (ii), graphically explain how the economy will reach its long-run equilibrium.
(4 marks)

(Total: 20 marks)

End of Paper